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C O N F I D E N T I A L SECTION 01 OF 02 SANTO DOMINGO 006857

SIPDIS

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [KCOR](#) [KCRM](#) [DR](#)

SUBJECT: DOMINICAN BANKING SERIES #2 - BANCREDITO FAILURE

BRINGS FORMAL CHARGES OF FRAUD

Classified By: DCM Lisa Kubiske. Reason: 1.4(b) and (d).

1. (U) The following is the second in a series of reports on fraud cases in the Dominican financial sector.

(begin text)

(U) BANCREDITO

(U) The District Attorney for the city of Santo Domingo issued arrest warrants on Friday afternoon, November 7, for Manuel Arturo Pellerano Pena and Juan Felipe Mendoza, former President and Vice President of Banco Nacional de Credito (Bancredito). The indictment charged them with fraud and related crimes. By Tuesday the 11th, President Mejia had suspended the warrants pending further investigation of the potential charges, the Pellerano family was taking out full-page newspaper ads to defend its honesty and business practices, and the public was wondering what was happening. The case is still under investigation.

#### THE FACTS

(U) On November 7, the Friday afternoon before a long weekend, Central Bank (CB) Governor Jose Lois Malkun announced that arrest warrants had been issued for former executives of the Banco Nacional de Credito, wound up recently by the banking authorities. Former Bancredito President Manuel Arturo Pellerano Pena and Vice President Juan Felipe Mendoza were wanted for fraud and violations of the Monetary and Finance Law. CB lawyers filed a complaint accusing them of responsibility for illegal, unfunded loans amounting to RD pesos 20 billion (USD 538 million).

(SBU) Superintendent of Banks Julio Cross Frias told the Ambassador that day that Bancredito had kept two sets of books, similar to the dual sets kept by spectacularly failed Baninter, and had used them for loans to its own affiliated companies Internet service provider Tricom, cable company Telecable and various others.

(U) The press reported a failed attempt to arrest the bankers on November 7, (neither was at work, although it looked as if they had cleared out moments before arrival of the constables). Action was suspended over a holiday weekend and on Saturday President Mejia told the District Attorney to delay until the executive branch could study the case.

(U) On November 11, the DA formally suspended the arrest warrants. The DA and, later, Supreme Court Chief Justice Jorge Subero Isa confirmed that President Mejia was within his executive prerogatives, since the case had not yet been submitted to the court system. President Mejia, meanwhile, departed for the Ibero-American Summit without further comment.

(SBU) Only on November 15, after meeting with the Ambassador, did Attorney General Cespedes offer the press on administration comment, assuring them that the investigation of Bancredito remained active.

(C) Banking Superintendent Julio Cross has been quoted in the press criticizing the President and the Attorney General for their deferential treatment of bank officials accused of corruption. Cross said that the fraud technique at Bancredito mirrored that used at Baninter but was on a smaller scale.

(C) In a meeting with the Ambassador on November 13, Cross said he "thinks and hopes" that the warrants will be issued, but he is not sure when that will be.

(U) On November 19 the Supreme Court announced procedural decisions advancing implementation of penal procedure previously programmed for 2004 (septel to follow) and the Attorney General gave complementary instructions to district attorneys. Suspects now will be guaranteed the right to legal counsel during questioning and any arrest must be authorized by a judge. If these measures had been in effect ten days earlier, the awkward Bancredito sequence would not have occurred. The arrest would have been on judicial authorization and would have gone forward.

TROUBLED WATERS

(C) We understand that the President was caught unawares by the Central Bank's initiative against Bancredito. The Pelleranos are an old-line family with a distinguished record of achievement; they may have assumed, at least initially, that banking practice here would permit extensive loans to family-owned companies. We understand that the Pelleranos formally pledged their assets against the shortfalls initially discovered at the bank; only after due diligence revealed the immensity of the shortfall did Central Bank lawyers move against them.

(C) The press was initially indignant about President Mejia's intervention but appears to have settled into a "wait and see" attitude. Attorney General Cespedes assured the Ambassador that the investigation is continuing, so we are taking the same approach: concern and watchful waiting to see how the case will be prosecuted.

#### SENSITIVITIES

(SBU) The Central Bank's earlier bailout of the insolvent, and now liquidated, Baninter, contributed directly to financial anxiety and accelerated the depreciation of the peso. The Central Bank felt betrayed then because it had made loans to Baninter as bank officials were shoveling money out the door and out of the country. As for this new case with Bancredito, however, its purchase by the Leon Jimenez Group will ensure that the bank stays open.

(SBU) Confidence in the Dominican judicial process remains very low. The public assumes that the accused in both cases will go either unprosecuted or unpunished. Lawyers for "Ramoncito" Baez Figueroa of Baninter told the press on November 17 that they would be petitioning for his release, "just as with the officials of Bancredito." With the November 18 reforms they formally requested a review of the detention order against him.

#### MESSAGE: FRAUD HURTS EVERYONE

(SBU) Embassy Santo Domingo is working at all levels to encourage full investigation and prosecution of bank fraud. We are engaging government officials, civil society, business leaders and others with the message that banking fraud was a major factor in the nation's financial plight and has hurt everyone in the Republic. We continue to urge prosecution of complex fraud cases. During his visit on November 21-22, Treasury Under Secretary John Taylor further reinforced this effort.

(end text).

12. (U) Drafted by Angela Kerwin.  
HERTELL